

City of Mesa Deferred Compensation Committee
Meeting Minutes
Monday, May 7, 2012
11:30AM
Mesa City Plaza Conference Room 130

Committee Members:

Present:

Chuck Odom (Chair)
Derek Witting
Don Miller
Frank Heglund
Jayson Vowell
Mary Dellai
Matt Rexing
Michael Claspell
Michelle Long

Absent:

None

Innovest:

Gordon Tewell
Jerry Huggins

Great West:

Scott Taylor

Other(s):

Bill Taebel

The meeting was called to order at 11:30 a.m. by Chuck Odom.

1. Innovest discussion of capital market process and long-term outlook for the economy. Factors driven by research analysis to forecast performance going forward. 5 – 10 year time frame, will test projections for reasonableness and long-term risks vs. long-term opportunities.

“Current sluggish economic expansion should have sufficient momentum to sustain slow to moderate growth over the next several years.” Concern over rising inflation. Five-year projection analysis compared long-term projections in 2011 to 2012 for equities, fixed income, and alternative investment types. US market looks strong due to health of corporations.

2. Innovest discussion of asset allocation study – review of model portfolio allocations. Balanced portfolio has less volatility than other classes.

Conservative Portfolio – discussion on asset mix alternatives.

Component	Current	Mix 1	Mix 2	Mix 3
Large Cap (US)	8%	8%	9%	11%
Small/Mid Cap (US)	2%	3%	4%	5%
Int'l Equity	6%	4%	5%	6%
Domestic Fixed	37%	37%	40%	36%
High Yield	7%	7%	7%	7%
Stable Value	40%	41%	35%	35%
Totals	100%	100%	100%	100%
Expected Return	3.47%	3.42%	3.67%	3.92%
Standard Deviation	5.15%	5.02%	5.73%	6.52%
Sharp Ratio	-0.01%	-0.02%	0.03%	0.06%

95th percentile (1 in 20 down year) return for mix 2 is projected at (5.3%), which is the same as 2011. 95th percentile return for mix 3 is projected at (6.2%), for a difference of (0.9%), but projected median rate of return for mix 3 is closer to 2011 median return (median 4.0% in 2011; 3.9% for mix 3 compared to 3.7% for mix 2 projected in 2012).

Motion to change conservative portfolio allocation to mix 3 made by Michele Long, seconded by Matt Rexing.

Comment made by Derek Witting regarding the appropriateness of risk and exposure for participants within the conservative portfolio – that the expectation is for less risk. Scott Taylor made comment that to avoid risk (not all), participants should be in stable value fund and that the conservative fund offers more return in relation to risk.

Moderate Portfolio – discussion on asset mix alternatives.

Component	Current	Mix 1	Mix 2	Mix 3
Large Cap (US)	23%	21%	24%	26%
Small/Mid Cap (US)	8%	8%	10%	11%
Int'l Equity	14%	12%	13%	15%
Domestic Fixed	23%	29%	23%	18%
High Yield	7%	7%	7%	7%
Stable Value	25%	23%	23%	23%
Totals	100%	100%	100%	100%
Expected Return	5.52%	5.30%	5.65%	6.00%
Standard Deviation	12.10%	11.19%	12.53%	13.89%
Sharp Ratio	0.17%	0.16%	0.17%	0.18%

95th percentile (1 in 20 down year) return for mix 2 is projected at (12.9%), which is the same as 2011. Projected median rate of return for mix 2 is closer to 2011 median return (median 5.9% in 2011; 5.7% for mix 2 projected in 2012).

Motion to change moderate portfolio allocation to mix 2 made by Matt Rexing, seconded by Derek Witting, opposed by Michele Long.

Aggressive Portfolio – discussion on asset mix alternatives.

Component	Current	Mix 1	Mix 2	Mix 3
Large Cap (US)	44%	40%	43%	46%
Small/Mid Cap (US)	15%	16%	17%	18%
Int'l Equity	25%	23%	24%	26%
Domestic Fixed	9%	14%	9%	3%
High Yield	7%	7%	7%	7%
Totals	100%	100%	100%	100%
Expected Return	8.32%	8.00%	8.35%	8.70%
Standard Deviation	22.16%	20.88%	22.28%	23.69%
Sharp Ratio	0.22%	0.22%	0.22%	0.22%

95th percentile (1 in 20 down year) return for current mix is projected at (21.9%), which is similar to 2011 (22.0%). Projected median rate of return for current mix is 8.3% compared to median 8.6% in 2011.

Motion to stay at current allocation by Frank Hoglund, seconded by Don Miller.

Re-revisit allocation by looking at a new mix that is between mix 2 and mix 3.

3. Innovest gave general review of 1st Quarter 2012. Highlighted the financial trends for the quarter in the Headwinds/Tailwinds.

Annual Fee Review (activity 01/01/2011 – 12/31/2011): estimated investment, recordkeeping, and administrative costs of 0.55% compare favorably to 401(k) data of similar sized plan with an average cost of 1.00%. Total estimated costs (includes 3rd party fees) is 0.62%. Average plan assets were \$114,568,218.

Specific Plan Investment Review

- Watch List: Fidelity Contrafund, Rainer Large Cap, Davis NY Venture, Janus Perkins Mid Cap, Keeley Small Cap, Oppenheimer Global
- Fund Analysis: Fidelity Contrafund – Style Consistency, Asset Base
Ranier Large Cap Equity – Performance
Davis NY Venture - Performance
Allianz NFJ Dividend Value – Performance
Janus Perkins Mid Cap Value – Style Consistency, Asset Base
Keeley Small Cap – Asset Base, Performance, Overall
Oppenheimer Global - Organization
American Funds EuroPacific – Asset Base
GreatWest Fixed Portfolio – Philosophy and Process

All listed as minor concerns.
- Report Card 5 new fail observations. Allianz added (trailing 5 years return below median) and Oppenheimer removed.

4. Innovest – discussion on further changes to COM Investment Policy Statement. Previous motion made to downgrade investment class to AA+ would not provide any significant advantages due to the recent downgrade of US debt. Both Innovest and GreatWest recommend additional change to reduce the minimum weighted average portfolio quality to AA. Per Chuck Odom, this would align with overall City of Mesa investment policy.

Motion to amend COM deferred compensation investment policy to allow up to a maximum of 15% be invested in commercial paper, corporate bonds, foreign government bonds or asset backed securities and maintain a weighted average portfolio of AA or better made by Jayson Vowell, seconded by Matt Rexing.

Will need to revise and sign new COM investment policy.

5. Discussion of any changes to minutes from 11/07/2011 and 02/06/2012. No changes noted.

Motion to approve minutes from 11/07/2011 and 02/06/2012 deferred compensation meetings made by Don Miller, seconded by Frank Hoglund.

6. GreatWest update by Scott Taylor. Comparison of City of Mesa to national average per National Association of Government Defined Contribution Administrators (NAGDCA).

NAGDCA

Avg Participation Rate	34.0%
Avg Participation for 457 plans	26.0%
Avg Account Balance	\$ 42,000.00
Avg Annual Contribution	\$ 4,300.00

City of Mesa

Participation Rate	64.7%
Avg Account Balance	\$ 46,500.00
Avg Annual Contribution	\$ 4,142.00

Potential COM Retirement Averages:	ASRS	\$19,000
	Social Security	\$14,000*
	Other	<u>\$12,500</u>
	Total	\$45,500

* Note: PSPRS retirement employees are not eligible for social security benefits.

7. Other Issues:

- Unforeseeable Emergency Withdrawal (UEW) requests – GreatWest asks that the committee review a specific circumstance and provide guidance as to how to proceed. Employee more than likely will not receive any income for 6 months. Instead of approving the request every couple of weeks, would the committee consider approving one request for the full amount. GreatWest policy is that they not pay out for future loss of income and the employee would need to request the funds as the loss occurs. COM will review specific circumstances with legal counsel (Bill Taeble) and determine course of action at a later date.
- Next meeting scheduled for August 6th, 2012 at 11:30 am.